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MEMORANDUM

By CIS 10/26/85 NATIONAL SECURITY COUNCIL

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INFORMATION

February 15, 1985

MEMORANDUM FOR ROBERT C. MCFARLANE

FROM: DONALD R. FORTIER
VINCENT CANNISTRARO *DF*

SUBJECT: The Qadhafi Problem

Qadhafi's adventurism is growing in intensity and breadth (see Tab A), as the intelligence community has itself confirmed. His support for terrorism continues, as does his preoccupation with regional subversion. We can expect to see revitalized subversive campaigns against both Tunisia and Sudan and in the days ahead. Moreover, Libyan destabilization activities have become global in scope: Libyan arms and support are helping to sustain the Sandinistas; and Libyan agitation recently has been revealed in places as geographically remote as New Caledonia. Finally, the Libyan-Soviet connection is also becoming progressively more extensive. New arms deals are forecast, naval infrastructure and support are being enhanced, and BACKFIRE-capable bases are nearing completion.

The question remains: What should we do? No one can say we have neglected the problem. We have helped regional friends combat specific threats. We have jawboned allies. And we have tried to anticipate and ward off terrorist acts. Still, many of our early and important symbolic measures have faded (see Tab B). Stair Step exercises, in any meaningful sense, have largely been abandoned. Indeed, if one were to select a single word to describe our current policy, it would be: "reactive."

We believe there are many good reasons to shift to a more active posture. First, the cost of retaining a reactive policy -- of waiting for Qadhafi to strike and only then doing something -- continues to grow. Reacting means larger defensive security assistance requirements; and it is becoming ever more expensive to protect our friends from Qadhafi's untoward designs. There are opportunity costs as well, inasmuch as Libyan-inspired regional turbulence makes it hard for us to seize positive opportunities for economic and political cooperation in the Maghreb. Finally, we run the risk of one day not being able to react in time.

Dealing with Qadhafi can also serve a number of more positive ends. Arab leaders anticipating peace with Israel bear three

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prior examples in mind: King Hussein's grandfather murdered on the steps of the El Aqsa Mosque, Gemayel, and Anwar Sadat. In short, until we move more decisively to contain the foremost coercive threats to moderate states, we cannot expect great progress. F-16s have limited capability against assassins. Conversely, a successful reduction of the Libyan threat would enable us to score a large psychological gain throughout the region. Such a reversal should have sobering effects not only on the Soviets, but on Tehran and Damascas as well. This could, in turn, promote other positive political-military trends. Access is foremost among the issues that could be affected. It should be recalled that Saudi Arabia's reluctance to be identified with us increased after the setback in Lebanon, and notwithstanding the growing threat from Iran. This history should instruct us. In the Middle East, the danger of accommodation and preemptive concession is sure to increase absent a constant effort on our part to 1) show that we can protect our friends; and 2) show others that being a friend of the Soviets is not cost free.

It was against this broad backdrop that I asked Vince Cannistraro to work with Steve Rosen and Steve Sestanovich to review where we were and how we might reenergize our Libyan activities. We can't pretend that we have crystallized an entire strategy; indeed, the essence of our immediate recommendation is the need to prepare the ground in certain ways before making a more fundamental policy choice. We do think it is possible, however, to take a number of sensible steps to get back on track.

Let me, then, highlight our principal observations, which are contained in greater detail in the specific tabs which are attached.

- The beginning of all wisdom is knowledge; and we have concluded we still don't know nearly as much as we should about the Libyan internal situation. The recent anti-Qadhafi bombings in Libya, for example, were something of a surprise. We had tended to write off the anti-Qadhafi dissidents as coffee house intellectuals. There now appears to be more to them than we suspected. Because we declined past [REDACTED] proposals to act against Qadhafi,

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concerning anti-Qadhafi projects has been less active than it could be. We propose a number of near-term measures to rectify key informational deficiencies and better prepare us as we move toward fundamental strategic decisions.

- The cards that we have to play are also changing (see Tab C) and, for the most part, getting better:

- o Libyan cash resources have dropped from \$14 billion in 1981 to between three and four billion dollars today. Libya's reserves dropped from \$4.6 to \$3.1 billion last year: if this trend continues, a real cash crunch will occur at some point in the next two years. Industrial

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development is at a standstill and there are widespread shortages of consumer goods. Bureaucratic corruption and black marketeering are on the rise. We need to integrate and refine this type of intelligence into our broader strategy, so that further economic moves are precisely timed to have maximum impact. This implies that rather than shutting down certain forms of allied trade, we at least ought to explore benign ways of spending Qadhafi into bankruptcy sooner. It also implies, however, that precise controls to slow projects that dramatically enhance Libyan revenue ought to receive careful attention. Once the cash crunch occurs, we have new options for making life difficult.

- o The internal resistance is much more active than many would have predicted and countries like Iraq appear to be fueling it seriously. We now have a relationship with Iraq that might allow for some options along these lines. We at least need to tap these sources.
- o Moreover, the Libyan threat has helped to foster new cooperation between Egypt and Algeria which we may be able to capitalize on.

-- We don't think it's possible to settle at this moment on a precise game plan. But there are certain measures we can and should undertake that will help us decide what our final policy choice may be (see Tab D). [REDACTED]

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[REDACTED] Further, if Libya's policies lead to military conflicts between Qadhafi and any of his neighbors, the U.S. should be prepared to provide effective assistance against Qadhafi. We also ought to work more closely with Egypt to ensure a greater reorientation of its military posture toward the Libyan border. And we ought to examine the security assistance programs of Egypt and other neighboring states to find ways of helping to create hedges against further improvements in the Soviet posture in Libya, e.g., BACKFIRE.

-- After we prepare ourselves, we will be able to choose between alternative policies:

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[REDACTED], conduct a sustained campaign of diplomatic, military and economic pressure. In the past, intermittent pressure has forced Qadhafi to turn inward and has brought about temporary reductions in hostile Libyan behavior. A sustained campaign could ameliorate our Libyan problem if it cannot solve it entirely.

-- Each policy has its strengths and weaknesses.

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-- The latter policy should not be considered as the "low risk option": it could also drive Qadhafi further into the arms of the Soviet Union. Moreover, Qadhafi has shown himself able to keep his head down until Western concern and resolve fades away. On the other hand, the continuing Libyan financial and economic problems plus Soviet reluctance to associate themselves too closely with this unpredictable character may give us the opportunity to force Qadhafi to lie low for quite some time. Without foreign policy victories and with a steadily deteriorating economic position, Qadhafi's internal position could slowly erode until he was deposed.

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Getting Started

As a first step, you may want to share this package with Secretaries Shultz and Weinberger, and with Director Casey. This could be followed by a family luncheon discussion. Ultimately, we will want to commission some kind of official steering group to begin to spearhead the effort.

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TAB A. THE QADHAFI PROBLEM

By CLS Date 10/26/05

There is general agreement within the Intelligence Community that Mu'ammarr Qadhafi's sponsorship of activities inimical to Western interests will continue, and that the pace of his involvement in international terrorist operations is increasing. The Libyan continuing occupation of Northern Chad, the mining of the Red Sea, the meddling in New Caledonia and Nicaragua and the augmented terrorist campaign against Libyan dissidents and foreign leaders may be cited as a few examples. Public embarrassment to Qadhafi resulting from failed or exposed plots such as the abortive assassination attempt against former Libyan Prime Minister Bakush in Egypt is unlikely to deter future attempts. Indeed the recent Qadhafi sponsorship of an attempt against President Mubarak's life during his State visit to Greece is evidence Qadhafi will continue to seek revenge for the Egyptian success in publicly humiliating him. A new series of terrorist attacks against those perceived as his enemies, continuing efforts to subvert African states, attempts to undercut American policy and divide the United States from regional allies, and sustained reliance on Soviet weaponry with concomitant hospitality to Soviet military interests can be projected. Arms purchase agreements with the Soviets amounting to more than nine billion dollars in the past four years, as well as military purchases from NATO nations including Turkey and Greece, have provided Qadhafi with leverage to continue extending Libyan influence in the Middle East, Africa and in Latin America. Soviet naval reconnaissance flights of Il 38 aircraft from Umm Aitigah airfield in Tripoli represent a threat to U.S. and NATO fleet activity in the Mediterranean.

Qadhafi has been eager to take advantage of opportunities to undermine American actions and the evidence that Qadhafi has stationed 100 Libyan military advisors in Nicaragua to assist the Nicaraguan counter-insurgency effort is a current example. Qadhafi has also sponsored the burning and sacking of the American Embassy in Tripoli and there are indications that restraints against the assassination of American officials may be loosened in the absence of strong American warnings.

The Soviets appear increasingly willing to exploit Qadhafi's security fears for Soviet advantage, despite their uneasiness with his unpredictable behavior. The current deployment of two IL-38's as part of an ASW exercise, the use of Tobrug by Soviet naval combatants for replenishment and repair, and the construction of a major new Soviet designed airfield at Al Jufra in the Libyan desert are evidence of Soviet objectives. A Soviet decision to deploy strike aircraft at the Al Jufra base will be a significant danger to NATO military assets in the Mediterranean. Qadhafi has gone to extremes to involve Libya in distant nations with no other purpose but to undercut support to U.S. interests. His ongoing attempts to provide sophisticated armaments, including jet aircraft, to the Nicaraguans and his funding of the

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construction of Punta Huete airbase near Managua are only recent examples. His willingness to support a major Libyan military presence in Northern Chad despite domestic opposition and international criticism is indicative of Qadhafi's determination. His capability to affect the international order and to work against U.S. policies appears likely to remain intact even as petroleum revenues fall: he has been willing to draw down on Libyan foreign reserves and to curtail domestic spending programs to protect his arms purchases. The January 1985 signing of a protocol with Greece to purchase 500 million dollars worth of Greek military equipment is evidence of this as well as renewed agreements with the Turkish government to organize a two month Libyan naval fast attack craft exercise. Turkish military deliveries to Libya during 1984 totaled 141 million dollars. Qadhafi's adventurism is accelerating and the constraints on his international behavior are fewer. NATO allies, despite Qadhafi's demonstrated capacity for mischief-making, compete with each other for profitable Libyan contracts while pronouncing the convenient rationale that it is better to collaborate with Qadhafi than to isolate him.

The argument is made that Qadhafi has not directly affected U.S. strategic interests and that his international behavior, while irritating to us, cannot seriously harm us. There is surface plausibility to this argument but it does not measure the Soviet willingness to exploit the situation to its own benefit and it does not give full weight to Qadhafi's ultimate objectives, purposes and willingness to support his goals despite heavier political and economic costs. In the absence of any real penalties resulting from his imprudent involvement in other nations, the constraints on Qadhafi's adventurism are diminishing. Opposition within his own government to his foreign policies has been contained, and potential alternative leaders have been marginalized. And, as he perceives benefit to his own security interests, he is likely to increase his accommodation to Soviet requests for more extensive use of Libyan military facilities. Notwithstanding the current Soviet advantage in Libya, the Soviets are not entirely comfortable with Qadhafi and a possible Soviet effort to sponsor a more reliable and responsive alternative to Qadhafi as leader of Libya is possible. Continued American vacillation on Libyan policy conceivably may result in a Libya even more hostile and more dangerous to U.S. interests; but regardless of whether a Soviet inspired change of leadership occurs, Soviet/Libyan cooperation will continue to increase the Soviet military advantage on the southern Mediterranean littoral.

Qadhafi has made recent overtures to the Sudan promising major financial aid in an effort to deny the Libyan opposition bases of support. He has coupled these overtures with increased stimulation of armed dissidence which may be serious enough to tempt a favorable Nimiery response, especially in view of the parlous situation in southern Sudan. Qadhafi is also engaged in attempts to negotiate a treaty with the Tunisian government, and

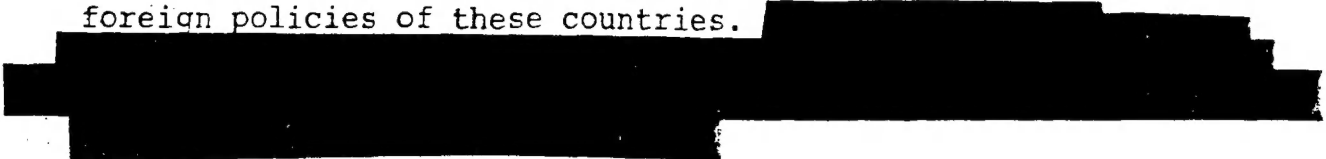
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the deteriorating situation in that country partly as a result of Bourguiba's progressive senility may promise Libyan success. Libyan agreements with the Sudan and with Tunisia will enhance Qadhafi's international position, dispirit the Libyan opposition, and increase Qadhafi's influence and ability to affect the foreign policies of these countries.



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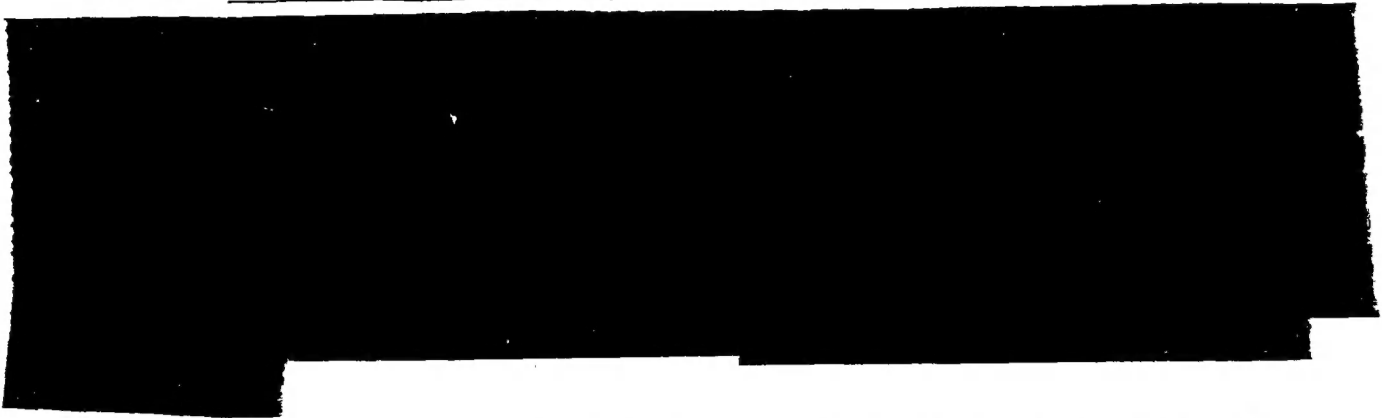
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TAB B. PAST AMERICAN ACTIONS



NSDD No. 16, which was disseminated on 10 December 1981, created a Task Force on Libya to coordinate and implement decisions on Libyan policy. The immediate occasion was the desire to reduce the number of American citizens in Libya to limit American vulnerability to Libyan terrorist actions. Sanctions included the U.S. embargo of Libyan oil, invalidation of U.S. passports for travel to Libya, and restrictions on Libyan student study in the United States. By January of 1985 more than one thousand Americans still work and reside in Libya and American corporations have a predominant position in development and petroleum industry projects in Libya. Qadhafi has collaborated with Americans in successful efforts to bypass the passport invalidation problem, and has accommodated the extensive U.S. commercial involvement in the Libyan economy. He has been careful to protect American citizens living in Libya. Stairstep Exercises, which presented an important security concern to Qadhafi in the past, have been discontinued and no new exercises are planned at present.

The ambivalence of the U.S. towards Qadhafi has been perceived by a number of regional friends and Western allies including the French. The U.S. role in blocking an anti-Qadhafi coup d'etat, the strong warning by President Carter to Anwar Sadat not to invade Libya during the Egypt/Libya border war, and continued significant U.S. commercial participation in Libya have underscored American ambivalence to these allies, and left a residue of doubt concerning our motives. Egyptian President Mubarak, a witness to some of these events in the past, is particularly cautious about American intentions.

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The abortive 8 May 1984 coup attempt, purges of the Libyan military officer corps in September 1984, successful attacks against Libyan officials abroad and sabotage of key Libyan installations are examples of an active and determined opposition to the Qadhafi regime. Qadhafi has conducted public executions, has attempted to bomb a Libyan opposition radio station in the Sudan, and has re-launched the Libyan anti-dissident terror squads in Europe. He has successfully used bribery, pressure and intimidation to secure the return of Libyan dissidents from European and North African nations, and the return of the dissidents is a prominent feature of the agreements he is seeking with the Sudanese and the Tunisians. Domestic non-violent opposition to Qadhafi's rule is also increasing as a result of diminished public spending, shortages of imported goods, and general economic slippage impelled by shortfalls in petroleum revenue. Libyan foreign reserves in January 1985 were 3.1 billion dollars, compared to 4.8 billion one year previous and 14 billion dollars in June of 1981. All but approximately \$200 million is held outside the U.S. Prestige development projects such as the "Great Manmade River Project", are estimated to exceed \$20 billion in costs over the next 10 years and contractual obligations to which Libya has been committed by Qadhafi represent a fixed drain on resources for at least the next three years. Projecting a continuation of the present trend of high defense spending and commitments to prestige economic development projects, Libya will have dissipated its foreign account holding within two years, not including 3.58 million ounces of gold held as a last reserve. At this point Libya may become dependent on international development bank financing and some \$370 million in Special Drawing Rights from its participation in the IMF and therefore vulnerable to U.S. actions in these world forums. Before then, however, internal discontent may be expected to increase as popular domestic programs are reduced or suspended, and harsh austerity measures are imposed such as the 50 percent reduction in food imports since 1981, a decline only partially compensated by cereal production on irrigated coastal land.

The armed opposition is receiving varying degrees of support from Iraq, the Sudan, Egypt and Algeria. (Morocco has effectively been neutralized as a center for Libyan opposition activity through the Oujda agreement.) The most prominent Libyan opposition group, the National Front for the Salvation of Libya (NFSL), led by Muhammad al-Magaryaf, [REDACTED] and receives some funding for organizational and transportation purposes. [REDACTED]

[REDACTED] Both Italy and France have recently indicated their concern over Mediterranean security, [REDACTED]

[REDACTED] The Iraqis are also interested in expanding anti-Qadhafi activity because of Libya's strong support to Iran in its war with Iraq. There are a

E.O. 12958 number of opportunities to organize regional and allied support to anti-Qadhafi action. The constraints to increasing pressure on Qadhafi in attempting to modify his behavior and temper his foreign meddling by turning his focus inwards are the following:

- A. Egyptian hesitation motivated by lack of assurances the United States is serious about opposing Qadhafi and will support an Egyptian move against Libya.
- B. [REDACTED]
- C. The difficulty of organizing U.S. and European resistance to Libyan economic pressure. Additionally, heavy U.S. commercial involvement in the Libyan economy provokes suspicion of our intentions from the French, the Italians and the Egyptians.
- D. Active American participation in anti-Qadhafi activity by the Libyan opposition may result in the removal of the last restraints against Libyan sponsored terrorism directed at American citizens and officials.
- E. Increased insecurity in Libya, especially that provoked by manifest American military maneuvers in the Gulf of Sidra and elsewhere may encourage Qadhafi to sign a Friendship Treaty with the Soviet Union, an action he has threatened in the past.

F. [REDACTED]

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TAB D. STRATEGYImmediate Actions

In order to position the United States to take a more active stance towards Qadhafi, and to determine which particular policy strategy offers the greater hope of success, the following actions should be implemented:

- A. A new National Security Decision Directive to replace NSDD 16 should be issued. NSDD 16, which was published December 10, 1981 created a Libya Task Force to implement policy decisions on Libya related to the presence of U.S. citizens in that country. A new interagency group, chaired by the NSC, should be authorized to implement a broad policy review and initiate coordinated policy steps.
- B. Immediate steps should be taken to enhance political and military intelligence collection on Libya.

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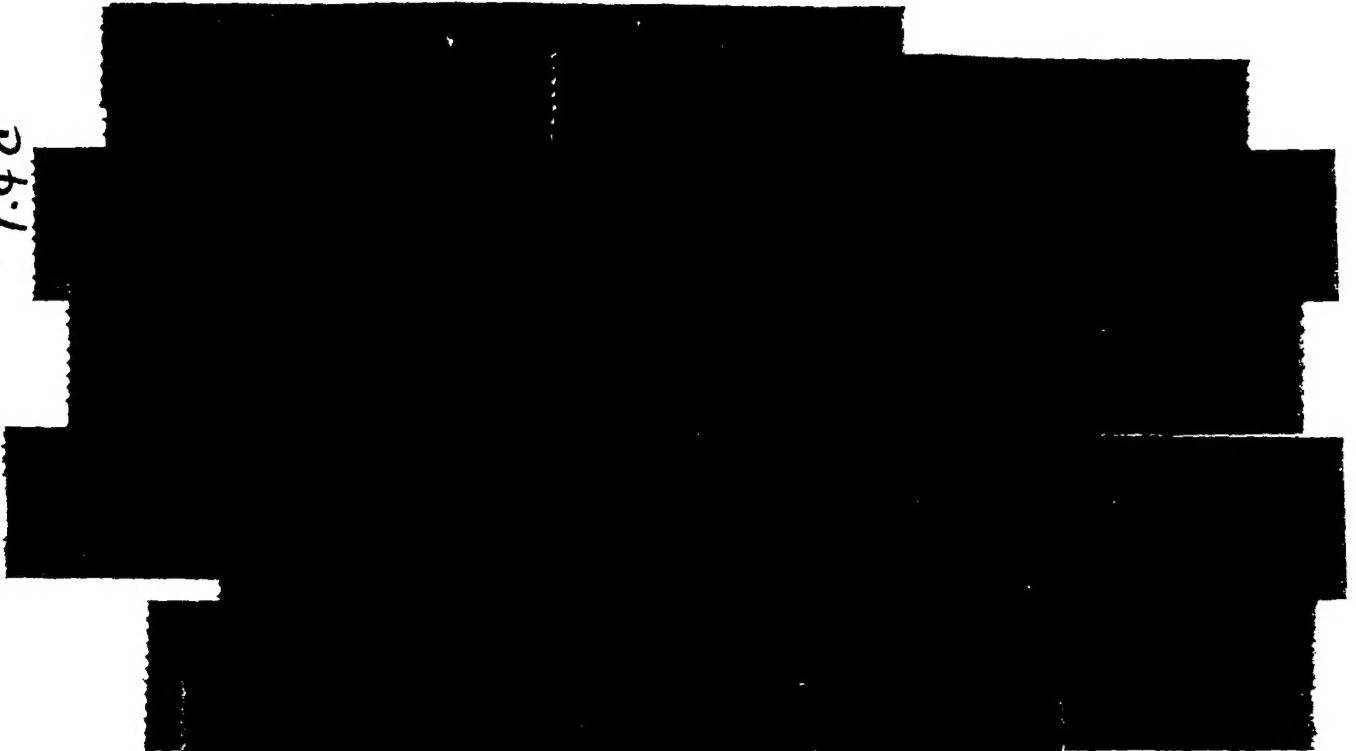
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Libya under Qadhafi represents a level of threat sufficient to merit broader U.S. policy attention. While the specific alternatives which we can employ both unilaterally and in partnership with our allies may not result in enduring moderate behavior on Qadhafi's part, they may serve important U.S. objectives in the region. They have, for example, the capability of mobilizing and assisting the process of regional resistance to Qadhafi's subversion of friendly nations, and they have the potential to energize both domestic and foreign opposition to Qadhafi and turn his focus increasingly inward. Insofar as the policy steps succeed, there will be additional restraints on Qadhafi's willingness to involve Libya in adventurist schemes far from home and there may be at least a temporary alteration in Qadhafi's sponsorship of terrorism. Changing the signals to our allies regarding the attitude of the United States towards Qadhafi and our willingness to support our regional friends in any conflict with Libya is an important first step in view of the

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ambivalency with which U.S. policy towards Qadhafi is perceived by several nations. There appear to be two basic strategies which may be followed:



President Mubarak's scheduled March visit to Washington would be an excellent opportunity to convey our determination to adopt a more activist policy towards Qadhafi.

- D. Discuss with our NATO allies the growing Soviet threat to the Mediterranean, deriving from Soviet use of Libyan facilities. The initial forum should be the NATO defense planning level to address the Soviet Naval Reconnaissance threat from UMM Aitgah airfield, and the possible staging of Soviet strike aircraft at Al Jufra. Followup to defense planning could be made at the political level during a NATO ministerial.
- E. Discourage American firms from participation in Libyan development projects and pressure American oil companies to reduce the level of their involvement in the Libyan oil industry. Discourage the banking system from financing development projects in Libya and actively oppose international economic agreements which facilitate financing for Libyan projects. Investigate ways of increasing and exploiting Libyan financial problems.

2) OPTION: BOLD APPROACH

Employing a range of U.S. economic, political, [REDACTED] and military resources, the U.S. could take a number of visible [REDACTED]

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[REDACTED] actions designed to bring significant pressure to bear upon Qadhafi, and possibly to cause his removal from power. Examples of such actions, which have considerably more risk attached than the broad approach, are:

- A. Explore in detail with the Egyptian government U.S. security guarantees in the event of hostilities with Libya.

[REDACTED] Iraq is training Libyan sabotage teams currently and U.S. encouragement and support to this activity has the potential to significantly broaden the effectiveness of these operations. Actions carried out by the Libyan armed opposition, if successful in augmenting significant pressure on Qadhafi and diminishing the stability of his regime, may lead to action by moderate Libyan army officers who are discontented with Qadhafi's policies.

The major disadvantage of the bold approach is that our actions, however disguised, will alarm some Western European allies who believe the best way to contain Qadhafi is to keep open lines of communication while entangling him in a web of economic and commercial relationships. Provocative Egyptian and/or Algerian military actions, combined with significantly enhanced activity by the armed opposition may drive Qadhafi to sign a formal treaty with the Soviet Union. Such a treaty, if accepted by the Soviets, would allow Soviet permanent access to Libyan naval and land facilities and institutionalize the Soviet military threat to NATO forces in the Mediterranean.

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